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9 JAN 1964

MEMORANDUM FOR: Director of Central Intelligence
THROUGH: Deputy Director (Intelligence) *RB*
SUBJECT: ORR Methodology of Computing Soviet Gross National Product and Its Academic Critics

1. This memorandum is for your information and is in response to your request to Mr. Cline for a statement on our method of computing Soviet gross national product (GNP), with reference to the skepticism expressed by certain academic scholars in 9 January 1964 issue of the New York Times on our growth estimates of about two and one-half percent for the USSR in 1962 and 1963.

2. ORR has a number of top level academic consultants, including the [redacted] [redacted] Our method of computing Soviet GNP has been reviewed by [redacted] and is essentially the same as [redacted] has used in his own calculations. Also, a second academic expert, [redacted] [redacted] has reviewed our system of accounts and has used identical methods in his own published work, which has received general academic acceptance. Neither [redacted] [redacted] have seen our latest computations, however. It should be mentioned that no other independent estimates of Soviet GNP for 1962 and 1963 have been published.

3. The ORR method of computing Soviet gross national product is summarized in the appended research aid, Construction of An Index of the Soviet Gross National Product, CIA/RR PA-59-5. In summary:

a. Estimates of physical production for each major sector of the economy are constructed from all available data, and are weighted by constant prices.

b. The sectors for which such calculations of annual output computations are made are industry, construction, agriculture, transportation, communications, trade and services.

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c. These sector indexes are combined into an aggregate figure by the use of value-added weights for each sector. The value-added weight for a sector consists of the sum of wages and salaries, depreciation, and profits in the sector. This is a standard computational technique, used for example, by the Federal Reserve Board in constructing its industrial production index.

4. Of key importance is the weight assigned to each sector of origin. The two largest sectors are agriculture and industry, the output of each of which contributes about one-third of the total index. To show what happened in 1963 to reduce Soviet growth to approximately two and one-half percent, the following equally weighted (that is, one-third of the total each) simplified illustration is given:

	<u>Percent Change</u>
Agriculture	-4
Industry	+7
All other sectors	+4
Total growth	<u>2.4</u>

5. While there are many thousands of individual computations in any calculation of a nation's gross national product, the key to the total growth figure for the USSR in 1963 is as stated at the end of the New York Times article of 9 January,

"Several of the economists agreed that the key variable in judging the estimate of the Central Intelligence Agency was the level of agricultural output assumed in making the calculation."

6. It is generally accepted by all U.S. specialists concerned with the Soviet economy that official output measures for certain agricultural commodities are inflated and require significant downward adjustments. OHR's index of agricultural output incorporating these independent commodity estimates was published in the compendium of papers issued by the Joint Economic Committee in 1962. Estimates of physical production through 1961 of major crops and livestock products were included in this unclassified paper. We have received only favorable comments on this paper, available to academicians for over a year.

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7. For your information, we are enclosing a copy of a recent unclassified publication, Index of Civilian Industrial Production in the USSR, 1950-61, which has been distributed to a number of academic scholars. This publication and its lengthy supplement give the detail of the computations we use on industrial production, except for the more highly classified military products. This study has been in academic hands for several months.

/s/

[Redacted]
Acting Assistant Director
Research and Reports

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Enclosures: (2)
As stated above.

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